

**EXAMINATION REPORT**  
**OF THE**  
**BERKLEY REGIONAL INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2013**

Karen Weldin Stewart, CIR-ML  
Commissioner




Delaware Department of Insurance

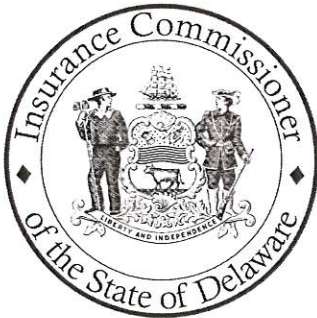
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT OF EXAMINATION, made as of December 31, 2013 of the

**BERKLEY REGIONAL INSURANCE COMPANY**

is a true and correct copy of the document filed with this Department.

Attest By: 

Date: May 1, 2015



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 1st day of May, 2015.



Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

REPORT OF EXAMINATION  
OF THE  
BERKLEY REGIONAL INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2013

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

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Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 1st day of May, 2015

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## **SALUTATION**

March 17, 2015

Honorable Karen Weldin Stewart, CIR-ML  
Commissioner of Insurance  
Delaware Department of Insurance  
Rodney Building  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 14.002, dated December 9, 2013, an examination has been made of the affairs, financial condition and management of the

### **BERKLEY REGIONAL INSURANCE COMPANY**

hereinafter referred to as "Company" at the main administrative offices of the Company located at 475 Steamboat Road, Greenwich, CT 06830. The examination was a coordinated examination and was conducted concurrently with other insurance entities in the W.R. Berkley Corporation Group. The State of Delaware was the assigned lead state by the National Association of Insurance Commissioners. Separate reports of examination were filed for each company. The report of examination thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

The last examination of the Company was conducted by the Delaware Department of Insurance as of December 31, 2009, and covered the two (2) year period from January 1, 2008 to December 31, 2009. This examination covers the four (4) year period from January 1, 2010

## **BERKLEY REGIONAL INSURANCE COMPANY**

through December 31, 2013, and encompasses a general review of transactions during the period, the Company's business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the Company as of December 31, 2013. Transactions subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the *National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook* ("NAIC Handbook") and generally accepted statutory insurance examination standards consistent with the insurance laws and regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risk within the Company and evaluating its system controls and procedures used to mitigate those risks. The examination also includes an assessment of the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to Delaware state regulations.

All accounts and activities of the Company were considered in accordance with the NAIC Handbook risk focused examination process. The examination report only addresses regulatory information revealed by the examination process.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, KPMG, LLP ("KPMG"). Certain auditor work papers have been incorporated into the examination work papers and have been utilized in determining the scope and areas of emphasis in conducting the examination. In addition, the Company was

## **BERKLEY REGIONAL INSURANCE COMPANY**

Sarbanes Oxley (“SOX”) Section 404 compliant as of the examination date. The examination reviewed and relied on the Company’s SOX work where deemed appropriate.

The Company is an indirect subsidiary of the W.R. Berkley Corporation (“WRBC”) and member of NAIC Group Number 98, W.R. Berkley Corporation Group (“Group”). The Company’s direct parent is the Berkley Insurance Company (“BIC”). BIC is the direct or indirect owner of all companies in the Group, with the exception of Union Standard Lloyds. Including the Company, the Group consists of twenty-four property and casualty insurance companies and one life and health insurance company. The companies in the Group and the state of domicile are summarized as follows:

## BERKLEY REGIONAL INSURANCE COMPANY

<u>Company Name</u>	<u>NAIC Number</u>	<u>State of Domicile</u>
Acadia Insurance Company	31325	NH
Admiral Indemnity Company	44318	DE
Admiral Insurance Company	24856	DE
American Mining Insurance Company	15911	IA
Berkley Insurance Company	32603	DE
Berkley Assurance Company	39462	IA
Berkley Life and Health Insurance Company	64890	IA
Berkley National Insurance Company	38911	IA
Berkley Regional Insurance Company	29580	DE
Berkley Regional Specialty Insurance Comp	31295	DE
Carolina Casualty Insurance Company	10510	IA
Clermont Insurance Company	33480	IA
Continental Western Insurance Company	10804	IA
Firemen's Insurance Company of Wash, D.C.	21784	DE
Gemini Insurance Company	10833	DE
Great Divide Insurance Company	25224	ND
Key Risk Insurance Company	10885	NC
Midwest Employers Casualty Company	23612	DE
Nautilus Insurance Company	17370	AZ
Preferred Employers Insurance Company	10900	CA
Riverport Insurance Company	36684	MN
StarNet Insurance Company	40045	DE
Tri-State Insurance Company	31003	MN
Union Insurance Company	25844	IA

In addition to items noted in this report, the topics below were reviewed without material exception and are included in the work papers of this examination:

Fidelity Bonds and Other Insurance

Pensions, Stock Ownership and Insurance Plans

Statutory Deposits

Loss Experience



**SUMMARY OF SIGNIFICANT FINDINGS**

None.

**SUBSEQUENT EVENTS**

During the third quarter of 2014, the Company paid an ordinary dividend in the amount of \$440.9 thousand.

**COMPANY HISTORY**

The Company was incorporated as National Assurance Underwriters, Inc. on December 17, 1985, under the laws of Missouri and began business on January 28, 1987. The Company became a wholly owned subsidiary of WRBC on August 1, 1996, and its name was changed to Berkley Regional Insurance Company on August 26, 1996. On December 31, 1996, WRBC contributed all of the outstanding capital stock of its regional insurance companies to the Company. On December 31, 2000, WRBC contributed the common stock of the Company to Berkley Insurance Company and the Company was re-domesticated from Missouri to the State of Delaware.

**CORPORATE RECORDS**

The minutes of the Stockholder and Board of Directors were reviewed for the period under examination. The recorded minutes documented activities and transactions of the Company.

The Bylaws require the Board of Directors to meet annually immediately after the annual stockholder meeting or as soon as practicable at the principal office of the Corporation. Other meetings may be held as determined by Board of Director resolution and special meetings may be called by the President, by a majority of Directors or by a majority of the Executive

**BERKLEY REGIONAL INSURANCE COMPANY**

Committee. The minutes of the meetings verified annual meetings took place in each year of the examination period.

All applicable agreements were filed with, and approved by, the Delaware Department of Insurance in accordance with 18 *Del.C.* § 5005 (a)(2) of the Delaware Insurance Code.

**MANAGEMENT AND CONTROL**

Pursuant to the general Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and Bylaws, the property, business and affairs of the Company shall be managed by a Board of Directors. The Bylaws require the Board of Directors consist initially of nine Directors and thereafter may consist of any number determined by resolution of the Board of Directors.

The Directors are elected annually by the stockholder and hold office until the next annual election and until their successors are elected and qualify. Directors duly elected and serving as of December 31, 2013, were as follows:

<u>Name</u>	<u>Business Affiliation</u>
William Robert Berkley	Chairman of the Board & Chief Executive Officer W.R. Berkley Corporation
W. Robert Berkley, Jr.	President & Chief Operating Officer W.R. Berkley Corporation
Eugene George Ballard	Senior Vice President & Chief Financial Officer W.R. Berkley Corporation
Paul James Hancock	Senior Vice President & Chief Corporate Actuary W.R. Berkley Corporation
Robert Carruthers Hewitt	Senior Vice President of Excess and Surplus Lines W.R. Berkley Corporation

**BERKLEY REGIONAL INSURANCE COMPANY**

Ira Seth Lederman	Senior Vice President, General Counsel & Secretary W.R. Berkley Corporation
Clement Patrick Patafio	Vice-President, Corporate Controller W.R. Berkley Corporation
William Mims Rohde Jr.	Senior Vice President of Regional Operating Units W.R. Berkley Corporation
James Gerald Shiel	Senior Vice President Investments W.R. Berkley Corporation

Officers were elected in accordance with the Bylaws during the period under examination. The Bylaws require election of a Chairman of the Board, a President, a Vice President, a Secretary and a Treasurer. The Board of Directors may also elect such other officers as considered necessary for the proper conduct of the business of the Company. The primary officers serving as of December 31, 2013 were as follows:

<u>Name</u>	<u>Title</u>
William Robert Berkley, Jr.	Chairman of the Board and President
Eugene George Ballard	Treasurer
Ira Seth Lederman	Secretary
Clement Patrick Patafio	Vice President
William Mims Rohde Jr.	Senior Vice President

Holding Company System

The Company is a member of an Insurance Holding Company System as defined under Chapter 50 of the Delaware Insurance Code. The Company and its upstream parent companies are ultimately controlled by WRBC. WRBC is a publically traded insurance holding company that trades on the New York Stock Exchange.

## **BERKLEY REGIONAL INSURANCE COMPANY**

The following is an abbreviated organizational chart that reflects the identities and interrelationships between the Company, its parents and subsidiaries and other affiliates with direct business relationships with the Company as of December 31, 2013:

### **W.R. Berkley Corporation**

- All American Agency Facilities, Inc.
- Berkley Dean & Company, Inc.
- Berkley Holdings Corp. Two
  - Berkley Holdings, LLC
- Berkley Insurance Services, LLC
- Berkley International, LLC
- Greenwich Knight Insurance Company
- LD Realty Advisors LLC
- LDPG Realty Investors L.P.
- MADA Reciprocal Services, Inc.
- Queen's Island Insurance Company, Ltd.
  - Signet Star Holdings, Inc.
    - Berkley Insurance Company
      - Admiral Insurance Company
        - Admiral Indemnity Company
        - Admiral Risk Insurance Services, Inc.
        - Armada Insurance Services, Inc.
        - Carolina Casualty Insurance Company
        - Clermont Insurance Company
        - Jersey International Brokerage Corporation
        - Nautilus Insurance Company
      - ARS Investors II 2012-1 HVB, LLC (99% Ownership)
      - Berkley Alternative Markets Insurance Services, LLC
      - Berkley Administrators of Connecticut, Inc.
      - Berkley Medical Excess Underwriters, LLC
      - Berkley Risk Administrators Company, LLC
        - All Claims of Nevada, Inc.
        - Berkley Risk Administrators of Texas, Inc.
        - Berkley Risk Services of Vermont, Inc.
        - Independent Plan Administrators, LLC
        - Rasmussen Agency, Inc.
    - Key Care, LLC
    - Key Risk Management Services, LLC
    - Key Risk Underwriting Managers, LLC
    - Midwest Employers Casualty Group, LLC
      - Midwest Employers Services, LLC
    - Preferred Employers Group, LLC

## BERKLEY REGIONAL INSURANCE COMPANY

Riverport Insurance Services, LLC  
Berkley Assurance Company  
Berkley Canada Inc.  
Berkley Capital Investors, LP  
    CC Investors, LLC  
    GRG Investment Holdings, Ltd.  
    Insurance Agency Holdings, LLC  
Berkley Capital, LLC  
    Berkley Capital Administrative LLC  
Berkley Design Professional Underwriters, LLC  
Berkley Insurance Company – Escritorio de Representacao no Brasil Ltda.  
Berkley Life and Health Insurance Company  
Berkley London Holdings, Inc.  
    W.R. Berkley London Finance, Limited  
    W.R. Berkley London Holdings, Limited  
        W.R. Berkley Insurance (Europe), Limited  
        W.R. Berkley London Staff, Limited  
Berkley National Insurance Company  
Berkley Regional Insurance Company  
    Acadia Insurance Company  
        Maine Compensation Services, Inc.  
    American Mining Insurance Company  
    Berkley Regional Specialty Insurance Company  
    CGH Insurance Group, LLC  
        American Mining Claims Service, Inc.  
        CGH Claims Service, Inc.  
        Mining Insurance Markets, Inc.  
    Continental Western Insurance Company  
    Firemen's Insurance Company of Washington, D.C.  
    Tri-State Insurance Company of Minnesota  
    Union Insurance Company  
    Union Standard Management Company, Inc.  
Berkley Regional Insurance Services, LLC  
    Acadia Insurance Group, LLC  
    American Mining Insurance Group, LLC  
    Berkley Mid-Atlantic Group, LLC  
    Berkley North Pacific Group, LLC  
    Berkley Regional Specialty, LLC  
    Berkley Surety Group, LLC  
    Continental Western Group, LLC  
    Regional Excess Underwriters, LLC  
    Union Standard Insurance Group, LLC  
    ZES Insurance Agency, LLC  
Berkley Specialty Insurance Services, LLC  
    Admiral Insurance Group, LLC  
    Berkley Custom Insurance Managers, LLC

## BERKLEY REGIONAL INSURANCE COMPANY

Berkley Professional Liability, LLC  
Berkley Select, LLC  
Berkley Specialty Underwriting Managers, LLC  
Carolina Casualty Insurance Group, LLC  
Clermont Specialty Managers, Ltd.  
Monitor Liability Managers, LLC  
Nautilus Excess Insurance Agency, LLC  
Nautilus Insurance Group, LLC  
Southwest International Underwriting Managers, Inc.  
Vela Insurance Services, LLC  
Verus Underwriting Managers, LLC  
Berkley Southeast Insurance Group, LLC  
CC Equity Holdings, LLC  
    Center Place Holdings LLC (93% owned by CC Equity Holdings)  
Franchise Credit LLC  
Gemini Insurance Company  
Great Divide Insurance Company  
Greenwich AeroGroup, Inc.  
Key Risk Insurance Company  
Middle Patent Capital, LLC  
    Loan Opportunity Fund I, LLC  
    Loan Opportunity Fund II, LLC  
    Loan Opportunity Fund III, LLC  
Midwest Employers Casualty Company  
Preferred Employers Insurance Company  
    Select Marketing Insurance Services, LLC  
Reinserco, Inc.  
    Merrill Management Corporation  
Riverport Insurance Company  
SilverCap Greenwich, LLC (98.04% Ownership)  
StarNet Insurance Company  
Starnet Insurance Services, LLC  
    Berkley Accident and Health, LLC  
    Berkley Asset Protection Underwriters, LLC  
    Berkley Aviation, LLC  
    Berkley Facultative Reinsurance Services, LLC  
    Berkley Global Underwriters, LLC  
    Berkley Latin American and Caribbean Managers, LLC  
    Berkley International Puerto Rico, LLC  
    Berkley Life Sciences, LLC  
    Berkley LS Insurance Solutions, LLC  
    Berkley Net Underwriters, LLC  
    Berkley Program Specialists, LLC  
    Berkley Public Entity Managers, LLC  
    Berkley Offshore Underwriting Managers, LLC  
    Berkley Oil & Gas Specialty Services, LLC

**BERKLEY REGIONAL INSURANCE COMPANY**

Berkley Re America, LLC  
Berkley Re Direct, LLC  
Berkley Risk Solutions, LLC  
Berkley Technology Services, LLC  
Berkley Technology Underwriters, LLC  
BIL Advisors, LLC  
Facultative ReSources, Inc.  
FinSecure, LLC  
Gemini Transportation Underwriters, LLC  
WRBC Support Services, LLC  
Surety-Pro Services, Inc.  
W.R. Berkley Syndicate Holdings Limited  
WRBC Corporate Member Limited  
W.R. Berkley Syndicate Limited  
W.R. Berkley Syndicate Management Limited  
860 Development Co LLC  
860 Washington Street LLC (75% Ownership)  
Commodore Re Management Corporation  
East Isles Reinsurance, Ltd.  
Northwest International Underwriting Manager, Inc.  
Steamboat Asset Management, LLC  
WRBC Transportation, Inc.  
Interlaken Capital Aviation Holdings, Inc.  
Interlaken Capital Aviation Services, Inc.  
WRBC Aviation Leasing, LLC  
W.R. Berkley Capital Trust II  
W.R. Berkley Capital Trust III  
33 GP LLC  
33 Grosvenor Place Limited  
34 Leadenhall Street Limited  
27 Leadenhall Street Properties Limited  
120dB Films Capital, LLC  
120 Films Lending, LLC

Management Contract and/or Lending Relationship (Non-owned)  
MADA Insurance Exchange  
States Self-Insurers Trust  
States Self Insurers Risk Retention Group  
Union Standard Lloyds

## **BERKLEY REGIONAL INSURANCE COMPANY**

### Management, Service, and Other Agreements

Below is a summary of significant affiliated agreements (excluding reinsurance agreements) in effect as of December 31, 2013. All affiliated agreements and amendments were properly filed and approved by the Delaware Department of Insurance.

### Affiliated Agreements

As of December 31, 2013, the Company had the following significant service and other agreements in effect with affiliates:

- Tax Allocation Agreement – Effective August 1, 1996, and amended December 31, 2000, the Company and WRBC entered into an affiliated Tax Allocation Agreement. In accordance with the agreement, the Company will participate in WRBC's election to file a consolidated federal income tax return as long as the Company is a member of WRBC. For years where a consolidated federal tax return is filed, WRBC will pay or discharge, or cause to be paid or discharged, the consolidated federal tax liability of WRBC. Taxes are calculated on a separate return basis, and the Company will pay WRBC an amount equal to the federal income tax liability it would have incurred if it had filed on a separate return. Conversely, if the Company's separate return calculation results in a net operating loss, capital losses, deductions, tax credits or similar items, WRBC shall compensate the Company an amount equal to its federal income tax liability calculated on a separate return basis. In accordance with the contract, WRBC and the Company shall each pay its own state and local taxes. As of December 31, 2013, the agreement remained in effect for all years prior to December 31, 2012. Effective January 1, 2013,



## **BERKLEY REGIONAL INSURANCE COMPANY**

the agreement was replaced by the tax provisions stipulated in the affiliated Reinsurance Pooling Agreement.

- Investment Advisory Agreement – Effective August 1, 1996, and amended March 11, 1998, December 31, 2000 and December 5, 2008, the Company entered into an Investment Advisory Agreement with Berkley Dean and Company, Inc. (“Berkley Dean”). In accordance with the agreement, Berkley Dean provides certain investment advisory and management services based upon criteria, standards and guidelines established by the Company. The Company has ultimate and final authority over decisions and policies on purchases and sales of securities.
- Investment Management Agreement – Effective January 1, 2005, the Company entered into an Investment Management Agreement with Steamboat Asset Management, LLC (“SAM”). In accordance with the agreement, SAM acts as manager for a specified portion of the Company’s investment portfolio subject to the direction, control and supervision of the Company.

### **TERRITORY AND PLAN OF OPERATION**

The Company is licensed, admitted or accredited to transact business in all fifty (50) states and the District of Columbia. The Company is an insurance and reinsurance company engaged primarily in writing property and casualty reinsurance on a treaty and facultative basis. For the year ended December 31, 2013, the majority of the Company’s gross premium written was derived from direct business produced primarily by the following Profit Centers: Berkley Surety; Berkley Oil and Gas Specialty Services and Berkley Specialty Asset Protection Underwriting Managers. In addition, a small amount of unaffiliated assumed business was

## **BERKLEY REGIONAL INSURANCE COMPANY**

produced primarily by Facultative Resources. The following further describes the business written by each Profit Center:

- Berkley Surety provides a broad array of surety products for contract and commercial surety risks, including specialty niches such as environmental and secured credit for small contractors, through an independent agency and broker platform across a nationwide network of 16 field offices.
- Berkley Oil and Gas Specialty Services provides property casualty products and risk services to the United States energy sector. Its customer base includes risks in the oil patch, including operators, drillers, geophysical contractors, well servicing contractors, and manufacturers/distributors of oil field products.
- Berkley Asset Protection Underwriting Managers provides products designed to protect a broad spectrum of high-value commercial and personal assets, including coverage for fine art risks such as museums, galleries, corporate and private collections; fidelity/crime for commercial and public entity risks; jewelers block for wholesale, retail, manufacturing and mining risks; cash-in-transit carriers and certain inland marine risks. Package coverages include property, general liability, umbrella and workers' compensation.
- Facultative Resources is a broker market casualty, professional liability and property facultative underwriter based in Stamford, Connecticut. It provides expertise across many lines of facultative business, and has recently broadened its expertise in a number of specialized areas, including professional liability and property hazards in emerging technologies.

**BERKLEY REGIONAL INSURANCE COMPANY**

**GROWTH OF THE COMPANY**

The following information reflects the admitted assets, surplus as regards policyholders, gross premiums written and net income of the Company since the prior examination:

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus as Regards Policyholders</u>	<u>Gross Premiums Written</u>	<u>Net Income</u>
2013	\$ 681,215,263	\$ 643,180,470	\$ (442,338,246)	\$ 134,454,374
2012	2,700,795,389	717,313,180	1,351,859,952	127,177,679
2011	2,683,053,632	699,827,354	1,282,526,420	57,367,524
2010	2,687,601,246	689,881,462	1,256,908,478	137,674,498
2009	2,769,586,810	649,943,764	1,310,639,826	105,036,966

For the year ended December 31, 2013, the Company's financial position and operating results were heavily skewed by the transfer of assets and liabilities and the first year of operations under the Reinsurance Pooling Agreement and the Assignment, Novation and Amendment of Reinsurance Contract. For the 2013 Annual Statement, the prior year financial statement presentation was not restated to reflect pooling agreement and related changes in affiliated reinsurance agreements. Excluding these events, the Company reported relatively stable gross premium written, surplus as regards to policyholders and total admitted assets over the examination period.

**BERKLEY REGIONAL INSURANCE COMPANY****REINSURANCE**

The Company reported the following distribution of premiums written for the year ended December 31, 2013:

	<b><u>2013</u></b>	<b><u>% GPW</u></b>	<b><u>2009</u></b>	<b><u>% GPW</u></b>
Direct business	\$ 113,938,222	-25.8%	\$ 55,584,716	4.2%
Reinsurance assumed from affiliates	(557,429,659)	126.0%	1,247,832,600	95.2%
Reinsurance assumed from non-affiliates	<u>1,153,190</u>	<u>-0.3%</u>	<u>7,222,509</u>	<u>0.6%</u>
Gross premiums written ("GPW")	<u>\$ (442,338,247)</u>	<u>100%</u>	<u>\$ 1,310,639,825</u>	<u>100%</u>
Reinsurance ceded to affiliates	\$ 138,822,023	-31.4%	\$ 8,568,227	0.7%
Reinsurance ceded to non-affiliates	<u>(33,746,703)</u>	<u>7.6%</u>	<u>162,364,682</u>	<u>12.4%</u>
Total ceded	<u>\$ 105,075,320</u>	<u>-23.8%</u>	<u>\$ 170,932,909</u>	<u>13.0%</u>
Net premiums written	<u>\$ (547,413,567)</u>	<u>123.8%</u>	<u>\$ 1,139,706,916</u>	<u>87.0%</u>

**Assumed Reinsurance – Affiliated**

Historically, the Group had various reinsurance agreements between BIC and its subsidiaries and affiliates and among various subsidiaries and affiliates in the Group. Effective January 1, 2013, all of the historical reinsurance agreements of the Group were commuted, assigned and novated, or otherwise amended binding BIC to assume 100% of all direct and assumed liability of all property and casualty companies in the Group. For 2013, the Company reported negative reinsurance assumed from affiliates due to the January 1, 2013 Assignment, Novation & Amendment of Reinsurance Contract ("Assignment and Novation") executed between the Company, Union Standard Lloyds and BIC. In accordance with the Assignment and Novation, BIC replaced the Company as the reinsurer in the original 100% Quota Share Reinsurance Agreement dated April 5, 1983, between the Company and Union Standard Lloyds.

**Assumed Reinsurance – Non-affiliated**

For the year ended December 31, 2013, the Company wrote approximately \$1.2 million in unaffiliated gross assumed premium. The unaffiliated assumed reinsurance was produced by

## **BERKLEY REGIONAL INSURANCE COMPANY**

Facultative Reinsurance and Berkley Specialty Underwriting Managers. The business was produced primarily on a facultative basis and is marketed through reinsurance brokers.

### Ceded Reinsurance – Affiliated

Effective January 1, 2013, the Company entered into a Reinsurance Pooling Agreement (“Pooling Agreement”) with BIC and eighteen of its twenty-three property and casualty insurance company subsidiaries. The Company and the other eighteen participants to the agreement are referred to as “Pool Affiliates.” The Pooling Agreement commutes all prior reinsurance agreements between BIC and Pool Affiliates and agreements among Pool Affiliates. Per the agreement, the Pool Affiliates cede and transfer 100% of (1) their respective liabilities on all direct insurance policies and all reinsurance contracts in force or that had expired or had been terminated or non-renewed as of January 1, 2013 and (2) those direct and assumed liabilities on policies issued subsequent to January 1, 2013. The Pooling Agreement appoints BIC to act as manager to do all things necessary and incidental to conduct the business of the Pool Affiliates, and provides BIC the right to subcontract any of the duties and obligations to various Profit Centers, other affiliates or unrelated third parties. Settlements required under the contract are made on a daily basis. The agreement also stipulates the Pool Affiliates be included in any consolidated federal income tax return of BIC. The Pool Affiliates pay BIC an amount of tax liability as if it had filed a separate federal income tax return, and full benefit is received for any net operating losses, capital losses, deductions, tax credits or similar items on a separate return basis. Tax payments are made to the Company quarterly. The Pooling Agreement was amended effective April 17, 2013 to add clarifying language in Article II of the contract regarding the Administration/Management provision.

## **BERKLEY REGIONAL INSURANCE COMPANY**

Simultaneous to the Reinsurance Pooling Agreement, BIC entered into an affiliated Management Agreement with forty-eight affiliated companies referred to as “Managers.” The Managers are also referred to as “Profit Centers” by the Group’s management, and specialize in property and casualty insurance underwriting, claims adjustment and payment and other management services. BIC also has similar agreements with other affiliated Profit Centers. In accordance with the agreements, BIC appointed the Profit Centers to act on its behalf and do all things necessary and incidental to conduct the business of BIC and its insurance subsidiaries. The agreements authorize the Profit Centers to subcontract any of the services furnished under the agreements to any subsidiary, affiliate or unrelated third party subject to BIC’s approval.

### **Ceded Reinsurance - Unaffiliated**

In accordance with the affiliated Reinsurance Pooling Agreement effective January 1, 2013, BIC received a settlement value plus any future reinsurance recoveries received by the Company as consideration. Accordingly, BIC now reports the NAIC Annual Statement *Schedule F – Part 3 Ceded Reinsurance* schedules as if it replaced the Company (original cedant) in all ceded reinsurance contracts issued by the Company prior to the agreement. After January 1, 2013, all aggregate and facultative reinsurance purchased to cover business underwritten by the Company is acquired in the name of BIC.

### **ACCOUNTS AND RECORDS**

The Company’s accounts and records and information technology processes and applications are maintained by BIC, or its designee, in accordance with the Reinsurance Pooling Agreement.

## **BERKLEY REGIONAL INSURANCE COMPANY**

The accounts and records review included an assessment of the Company's risk management process for identifying and controlling risks in key operational areas. In making the assessment for each key area, processes were reviewed, risks were identified and controls were identified and tested. The Company's methodology for assessing the effectiveness of the established mitigation factors was also evaluated.

The Company's information technology ("IT") platforms, applications and services are decentralized and managed locally at each Profit Center by local IT management and/or centralized by WRBC under an affiliated computer services agreement with Berkley Technology Services, LLC (BTS). BTS manages WRBC corporate IT applications and services that are provided to all Profit Centers. These applications include the PeopleSoft general ledger, the PAM investment software and the Freedom Reinsurance System.

The Delaware Department of Insurance engaged INS Services, Inc. to perform a review and assessment of the Company's information systems and the related control environment. There were no reportable examination findings with respect to the Company's information technology systems and controls.

### **FINANCIAL STATEMENTS**

The following statements show the assets, liabilities, surplus as regards policyholders of the Company, as determined by this examination, as of and for the period ended December 31, 2013:

- Assets
- Liabilities, Surplus and Other Funds
- Statement of Income
- Capital and Surplus Account
- Reconciliation of Capital and Surplus From the Prior Examination

**BERKLEY REGIONAL INSURANCE COMPANY**

Assets  
As of December 31, 2013

	Ledger	Assets Not	Net Admitted	
	<u>Assets</u>	<u>Admitted</u>	<u>Assets</u>	<u>Notes</u>
Bonds	\$ 300,816,738	\$ -	\$ 300,816,738	1
Preferred stocks	1,150,000	-	1,150,000	
Common stocks	302,023,308	-	302,023,308	2
Mortgage loans on real estate - First liens	8,662,498	-	8,662,498	
Real estate - Properties held for sale	40,000	-	40,000	
Cash and short-term investments	14,609,190	-	14,609,190	
Other invested assets	24,975,543	-	24,975,543	3
Receivables for securities	5,563	-	5,563	
Investment income due and accrued	3,596,994	-	3,596,994	
Uncollected premiums and agent balances	18,213,624	3,125,277	15,088,347	
Deferred premiums	4,713,163	-	4,713,163	
Accrued retrospective premiums	(2,341,386)	-	(2,341,386)	
Net deferred tax asset	4,579,945	-	4,579,945	
Guaranty funds receivable or on deposit	24,465	-	24,465	
Receivables from parent, subsidiaries and affiliates	<u>3,270,895</u>	<u>-</u>	<u>3,270,895</u>	
 Total assets	 <u>\$ 684,340,540</u>	 <u>\$ 3,125,277</u>	 <u>\$ 681,215,263</u>	



**BERKLEY REGIONAL INSURANCE COMPANY**

Liabilities, Surplus and Other Funds  
December 31, 2013

		<u>Notes</u>
Losses	\$ -	4
Reinsurance payable on paid loss and loss adjustment expenses	-	
Loss adjustment expenses	-	4
Commission payable, contingent commissions and other similar charges	690,875	
Other expenses	(1,497)	
Taxes, licenses and fees	711,877	
Current federal & foreign income taxes	1,126,583	
Advance premium	372,380	
Dividends declared and unpaid - Policyholders	25,000	
Ceded reinsurance premiums payable	30,640,595	
Amount withheld or retained by company for account of others	2,457,171	
Remittances and items not allocated	82,328	
Payable to parent, subsidiaries and affiliate	288,018	
Aggregate write-ins for liabilities	1,641,464	
Total liabilities	<u>38,034,794</u>	
Common capital stock	\$ 4,000,000	
Gross paid in and contributed surplus	348,064,729	
Unassigned funds (surplus)	<u>291,115,740</u>	
Total surplus as regards policyholders	<u>\$ 643,180,469</u>	
Total liabilities, capital and surplus	<u>\$ 681,215,263</u>	

**BERKLEY REGIONAL INSURANCE COMPANY**

Statement of Income  
For the Period Ended December 31, 2013  
and  
Capital and Surplus Account  
From December 31, 2012 to December 31, 2013

Income:		
Premiums earned		\$ -
Net investment income earned		11,630,792
Net realized capital gains		47,600,925
Other income		<u>3,776,401</u>
Total income		<u>\$ 63,008,118</u>
Expenses:		
Losses incurred		\$ -
Loss adjustment expenses incurred		-
Other underwriting expenses		-
Net loss from agents' or premium balances charged off		3,776,401
Federal and foreign income taxes incurred		<u>(75,222,657)</u>
Total expenses		<u>\$ (71,446,256)</u>
Net income:		<u>\$ 134,454,374</u>
Surplus as regards to policyholders, December 31, 2012		\$ 717,313,180
Net income		134,454,374
<u>Additions:</u>		
Change in nonadmitted assets	\$ 2,373,677	
Change in provision for reinsurance	1,462,583	
Paid in surplus	<u>127,068</u>	
Total additions		3,963,328
<u>Deductions:</u>		
Change in unrealized capital gains (losses)	(11,368,088)	
Change in foreign exchange capital gains (losses)	(6,245,794)	
Change in net deferred income tax	(93,233,602)	
Dividends	(100,092,790)	
Aggregate write-ins for gains and losses in surplus	<u>(1,610,139)</u>	
Total deductions		(212,550,413)
Surplus as regards to policyholders, December 31, 2013		<u>\$ 643,180,469</u>

**BERKLEY REGIONAL INSURANCE COMPANY**

Reconciliation of Capital and Surplus From Prior Examination  
December 31, 2009 to December 31, 2013

	<u>Aggregate Write-ins Surplus Funds</u>	<u>Common Capital Stock</u>	<u>Gross Paid-in &amp; Contributed Surplus</u>	<u>Unassigned Funds (Surplus)</u>	<u>Total</u>
December 31, 2009	\$ 17,724,302	\$ 4,000,000	\$ 347,722,886	\$ 280,496,576	\$ 649,943,764
2010 Operations (1)	-	-	-	133,948,150	133,948,150
2010 Special Surplus	11,026,514	-	-	-	11,026,514
2010 Dividends (3)	-	-	-	(105,036,966)	(105,036,966)
2011 Operations (1)	-	-	-	81,516,824	81,516,824
2011 Special Surplus	(4,303,760)	-	-	-	(4,303,760)
2011 Dividends (3)	-	-	-	(67,267,172)	(67,267,172)
2012 Operations (1)	-	-	-	111,700,841	111,700,841
2012 Special Surplus	(24,447,056)	-	214,776	-	(24,232,281)
2012 Dividends	-	-	-	(69,982,735)	(69,982,735)
2013 Operations (1)	-	-	-	25,833,012	25,833,012
2013 Special Surplus	-	-	127,068	-	127,068
2013 Dividends (3)	-	-	-	(100,092,790)	(100,092,790)
December 31, 2013	<u>\$ -</u>	<u>\$ 4,000,000</u>	<u>\$ 348,064,729</u>	<u>\$ 291,115,740</u>	<u>\$ 643,180,469</u>

(1): Operations is defined as: net income, change in net unrealized capital gains or (losses), change in net deferred income tax, change in non-admitted assets, change in provision for reinsurance, and aggregate write-ins for gains and losses to surplus.

(2): See discussion of common capital stock and paid-in surplus below.

(3): See discussion of dividends below.

Common Capital Stock and Paid-in Surplus

As amended, the Certificate of Incorporation authorizes the Company to issue 40,000 shares of common stock with a \$100 par value, and 80,000 shares of preferred stock with a \$10 par value. As of December 31, 2013, the Company had 40,000 common shares totaling \$4,000,000. The Company had no preferred shares issued and outstanding. All outstanding common shares of the Company are owned by Berkley Insurance Company.

As of December 31, 2013, the Company reported gross paid in and contributed surplus of \$348.1 million. During the examination period, the Company received approximately \$214.8

## **BERKLEY REGIONAL INSURANCE COMPANY**

thousand and \$127.1 thousand of gross paid in and contributed surplus from its parent for the years ended 2012 and 2013, respectively.

### Dividends

The Company paid an extraordinary dividend to BIC during 2013 in the amount of \$100.1 million. Prior approval from the Delaware Department of Insurance was obtained before payment. In addition, the Company paid ordinary dividends during the examination period in the amounts of \$105.0 million, \$67.3 million and \$70.0 million for the years ended 2010, 2011 and 2012, respectively. The dividends were paid in the form of cash or transfer of invested assets, including ownership of a wholly owned subsidiary valued at book adjusted carrying value on the date of transfer.

### **SCHEDULE OF EXAMINATION ADJUSTMENTS**

None.

### **NOTES TO THE FINANCIAL STATEMENTS**

**Note 1:**  
**Bonds**

**\$ 300,816,738**

As of December 31, 2013, the Company reported total bond investments on Schedule D – Part 1 with book adjusted carrying values in the amount of \$300.8 million and fair market values of \$306.3 million. Bonds were comprised of the following classes:

**BERKLEY REGIONAL INSURANCE COMPANY**

	<u>Statement Value</u>	<u>% of Total</u>
U.S. Governments	\$ 11,049,488	3.7%
U.S. States, Territories & Possessions	37,757,805	12.6%
U.S. Political Subdivisions of States, Territories & Possessions	16,202,509	5.4%
U.S. Special Revenues	201,466,402	67.0%
Industrial and Miscellaneous	34,340,536	11.4%
Total	<u>\$ 300,816,740</u>	<u>100.0%</u>

The Company reported an additional \$12.3 million in bonds at book adjusted carrying value as short-term investments for total bond holdings of \$313.1 million. Of the Company's total bond holdings, \$308.1 million or 98.4% were categorized as Class 1 with respect to NAIC credit quality standards. The remaining holdings were NAIC Class 2 bonds. The bond holdings were 95.5% publically traded and 4.5% private placement securities. Bond maturities were diversified relative to maturity with 18.8%, 33.4%, 31.9%, 12.9% and 3.0% maturing in less than one year, one to five years, five to ten years, ten to twenty years, and over twenty years, respectively. The examination verified the existence, ratings and reported values for the bond securities as of December 31, 2013.

**Note 2:****Common Stock****\$302,023,308**

As of December 31, 2013, the Company reported total common stock investments with book adjusted carrying values in the amount of \$302.0 million and fair market values of \$447.9 million. The Company's common stock holdings consist of common stock shares in its insurance subsidiaries, interest in an affiliated limited partnership and publically traded shares of WRBC. As of December 31, 2013, common stocks consisted of the following:

**BERKLEY REGIONAL INSURANCE COMPANY**

<u>Description</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>Actual Cost</u>	<u>Amount Received During Year Dividends</u>	<u>Date Acquired</u>
<b><u>Domestic Insurance Subsidiaries</u></b>					
Continental Western Ins. Company	\$ 85,455,904	\$ 85,455,904	\$ 62,285,622	\$ -	12/31/1996
Berkley Regional Specialty Ins. Company	51,612,668	51,612,668	50,002,106	-	3/31/2005
Acadia Insurance Company	50,471,076	50,471,076	38,281,628	-	2/26/1999
Tri-State Insurance Company	30,926,513	30,926,513	14,417,626	-	12/31/1996
Firemens Insurance Company	30,869,223	30,869,223	27,377,404	-	12/31/1996
Union Insurance Company	28,229,336	28,229,336	12,138,110	-	12/31/1996
Union Standard Management, Inc.	-	-	1,000	-	3/31/2006
American Mining Insurance Company	<u>22,857,777</u>	<u>22,857,777</u>	<u>22,499,670</u>	-	10/4/2007
<b>Subtotal</b>	<u>\$ 300,422,497</u>	<u>\$ 300,422,497</u>	<u>\$ 227,003,166</u>	<u>\$ -</u>	
<b><u>Investment in Ulitmate Controlling Party</u></b>					
WR Berkley Corporation Common Shares	<u>\$ -</u>	<u>\$ 145,701,667</u>	<u>\$ 10,654,256</u>	<u>\$ 1,310</u>	5/31/2010
<b><u>Other Affiliated Companies</u></b>					
Ledenhall Street LTD #34	<u>\$ 1,600,811</u>	<u>\$ 1,600,811</u>	<u>\$ 1,613,692</u>	<u>\$ -</u>	10/23/2013
<b>Grand Total</b>	<u>\$ 302,023,308</u>	<u>\$ 447,724,975</u>	<u>\$ 239,271,114</u>	<u>\$ 1,310</u>	

The examination verified the existence and reported values for the common stock securities as of December 31, 2013, without material exception. Investments in affiliates were reviewed for proper reporting in accordance with *Statement of Statutory Accounting Principles No. 97 – Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 88* without exception.

**Note 3:**

**Other Invested Assets**

**\$24,975,543**

As of December 31, 2013, the Company reported total other invested assets with book adjusted carrying values in the amount of \$25 million, and reported fair market values that were not materially different than book adjusted carrying value. Of the total book adjusted carrying value, approximately \$22.5 million or 90.0% consisted of affiliated mortgage loan joint venture investments, and the remaining \$2.5 million and 10.0% was an investment in an affiliated real

**BERKLEY REGIONAL INSURANCE COMPANY**

estate limited liability company. As of December 31, 2013, other invested assets consisted of the following:

**Unaffiliated Real Estate Joint Ventures**

LDGP Realty Investors, LP	\$	1	\$	30,963	\$	40,394	-	11/6/2006
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**Affiliated Mortgage Loan Joint Ventures**

Berkley International, LLC		21,711,814		21,711,814	\$	5,384,165	14%	3/1/2000
Berkley Capital Investors, LP		<u>746,634</u>		<u>746,634</u>		<u>232,518</u>	1%	2/21/2003
<b>Subtotal</b>		<u>22,458,448</u>		<u>22,458,448</u>		<u>5,616,683</u>		

**Affiliated Real Estate Joint Ventures**

33 Grosvenor Place, LLC		<u>2,517,093</u>		<u>2,517,093</u>		<u>2,580,848</u>	1%	1/27/2011
<b>Total</b>		<u>\$ 24,975,542</u>		<u>\$ 25,006,504</u>		<u>\$ 8,237,925</u>		

Other invested assets increased significantly over the examination period to a high of \$291.0 million in 2012. Holdings decreased in 2013 when other invested assets were transferred to BIC as consideration for the Reinsurance Pooling Agreement. The examination verified the existence and reported values for the other invested assets as of December 31, 2013, without material exception. Other invested assets were reviewed for proper reporting in accordance with *Statement of Statutory Accounting Principles No. 48 – Joint Ventures, Partnerships and Limited Liability Companies* without material exception.

**Note 4:**

<b>Losses</b>	<b>\$ 0</b>
<b>Loss Adjustment Expenses</b>	<b>\$ 0</b>

INS Consultants, Inc. (“Consulting Actuary”) performed a review of the inherent risks, management oversight and other mitigating controls over the Company’s actuarial processes and procedures. The Consulting Actuary’s review included detail testing and an independent calculation of the Company’s loss and loss adjustment expense reserves as of December 31, 2013. The Company’s actuarial staff provided the Consulting Actuary its Statement of Actuarial Opinion and the supporting actuarial data, documents and calculations. The

**BERKLEY REGIONAL INSURANCE COMPANY**

Consulting Actuary determined the Company's loss and loss adjustment expenses reserves were sufficient on both a gross and net basis as of December 31, 2013.

**COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

There were no recommendations contained in the prior examination report as of December 31, 2009.

**SUMMARY OF RECOMMENDATIONS**

None.

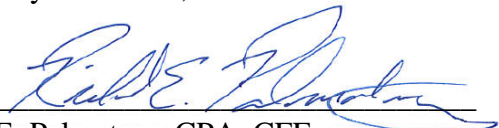
**CONCLUSION**

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<b><u>Description</u></b>	<b><u>December 31, 2013</u></b>	<b><u>December 31, 2009</u></b>	<b><u>(Decrease)</u></b>
Assets	\$ 681,215,263	\$ 2,769,586,810	\$ (2,088,371,547)
Liabilities	\$ 38,034,793	\$ 2,119,643,046	\$ (2,081,608,253)
Capital and Surplus	\$ 643,180,470	\$ 649,943,764	\$ (6,763,294)

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. and the consulting information technology specialist with INS Services, Inc. is acknowledged.

Respectfully submitted,

  
Richard E. Palmatary, CPA, CFE  
Examiner In-Charge  
State of Delaware